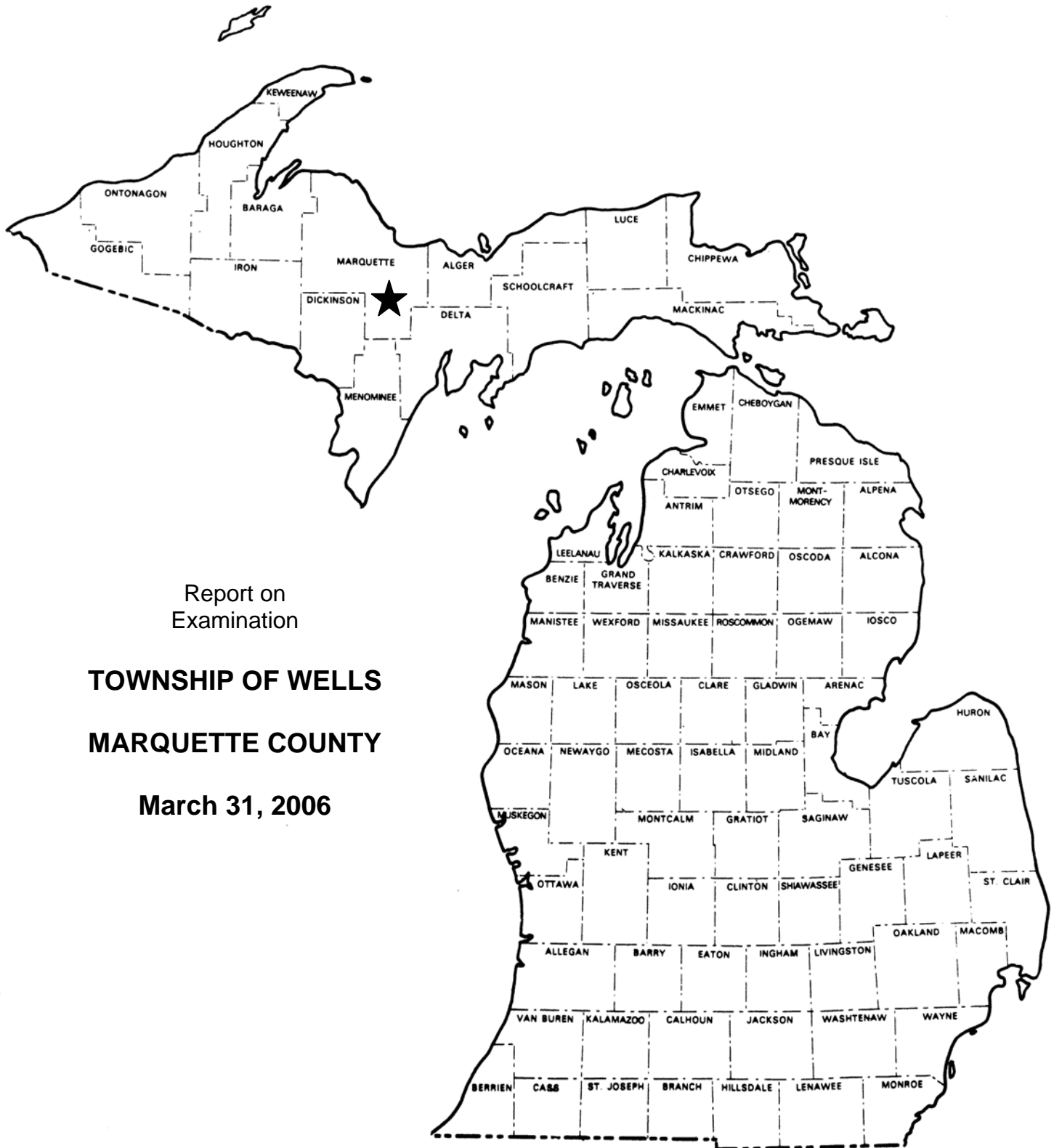


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

TOWNSHIP OF WELLS

MARQUETTE COUNTY

March 31, 2006

WELLS TOWNSHIP--MARQUETTE COUNTY

TOWNSHIP BOARD

Henry DeGroot
Supervisor

Patti Manninen
Clerk

Michael VanDamme
Treasurer

Robert Therrian
Trustee

Marilyn Manninen
Trustee

TOWNSHIP POPULATION--2000

292

STATE EQUALIZED VALUATION--2005

\$39,277,800



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

September 3, 2008

Township of Wells
Board of Trustees
38295 County Road 426
Arnold, Michigan 49819

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wells Township, Marquette County, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Wells Township, Marquette County, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wells Township, Marquette County, Michigan, as of March 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 3, 2008, on our consideration of Wells Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of

our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 4 and the budgetary comparisons for major funds, as identified in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and the presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the township's basic financial statements. The accompanying supplementary information in Exhibits I through K is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

WELLS TOWNSHIP--MARQUETTE COUNTY

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WELLS TOWNSHIP--MARQUETTE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended March 31, 2006

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township, as a whole, and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

The Township as a Whole

The Township's net assets increased \$125,767 from a year ago for the governmental activities due to decreasing expenses related to road improvements. Two road projects were done in 2005 and none in 2006.

	Governmental Activities 2005	Governmental Activities 2006	Favorable (Unfavorable) Difference	Percent
Current Assets	\$ 956,935	\$1,076,710	\$119,775	12.52%
Noncurrent Assets	261,139	265,531	4,392	1.68%
Total Assets	1,218,074	1,342,241	124,167	10.19%
Current Liabilities	2,759	1,955	(804)	-29.14%
Long-Term Liabilities	4,781	3,985	(796)	-16.65%
Total Liabilities	7,540	5,940	(1,600)	-21.22%
Net Assets				
Invested in Capital Assets				
Net of Debt	274,482	261,546	(12,936)	-4.71%
Restricted	778,121	874,735	96,614	12.42%
Unrestricted (Deficit)	157,931	200,020	42,089	26.65%
Total Net Assets	\$ 1,210,534	\$1,336,301	\$125,767	10.39%

WELLS TOWNSHIP--MARQUETTE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended March 31, 2006

	Governmental Activities 2005	Governmental Activities 2006	Favorable (Unfavorable) Difference	Percent
Program Revenues				
Charges for Services	\$ 50	\$ 330	\$ 280	560.00%
Operating Grants and Contributions	18,124		(18,124)	-100.00%
General Revenues				
Property Taxes	176,206	181,165	4,959	2.81%
State-Shared Revenues	24,055	25,285	1,230	5.11%
Unrestricted Investment Earnings	13,538	19,216	5,678	41.94%
Other Revenue	<u>8,885</u>	<u>9,709</u>	<u>824</u>	<u>9.27%</u>
Total Revenues	<u>240,858</u>	<u>235,705</u>	<u>(5,153)</u>	<u>-2.14%</u>
Program Expenses				
General Government	65,108	68,985	3,877	5.95%
Public Safety	10,949	11,678	729	6.66%
Public Works	80,311	11,796	(68,515)	-85.31%
Community and Economic Development	1,958	2,132	174	8.89%
Recreation and Culture	15,931	15,034	(897)	-5.63%
Interest on Long-Term Debt	<u></u>	<u>313</u>	<u>313</u>	<u>100.00%</u>
Total Expenses	<u>174,257</u>	<u>109,938</u>	<u>(64,319)</u>	<u>-36.91%</u>
Change in Net Assets	<u>\$ 66,601</u>	<u>\$ 125,767</u>	<u>\$ 59,166</u>	<u>88.84%</u>

WELLS TOWNSHIP--MARQUETTE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended March 31, 2006

Governmental Activities

The Township's total governmental revenues increased primarily due to the state grant received for tennis court improvements and interest earned. Expenditures also decreased by \$156,208 due to the decrease in road improvements and capital outlay.

	Governmental Funds	Governmental Funds	Favorable (Unfavorable) Difference	Percent
	2005	2006		
Revenues				
Taxes and Penalties	\$ 176,206	\$ 181,165	\$ 4,959	2.81%
Federal and State Grants	24,055	43,409	19,354	80.46%
Fines and Forfeits	50	330	280	560.00%
Interest and Rentals	13,538	19,216	5,678	41.94%
Other Revenue	8,885	9,709	824	9.27%
Total Revenues	<u>222,734</u>	<u>253,829</u>	<u>31,095</u>	<u>13.96%</u>
Program Expenses				
General Government	61,400	63,853	2,453	4.00%
Public Safety	9,049	9,004	(45)	-0.50%
Public Works	80,311	11,796	(68,515)	-85.31%
Community and Economic Development	1,958	2,132	174	8.89%
Recreation and Culture	12,341	10,799	(1,542)	-12.49%
Capital Outlay	106,275	16,432	(89,843)	-84.54%
Debt Service	<u>1,110</u>	<u>1,110</u>	<u>1,110</u>	<u>100.00%</u>
Total Expenses	<u>271,334</u>	<u>115,126</u>	<u>(156,208)</u>	<u>-57.57%</u>
Change in Fund Balance	<u>\$ (48,600)</u>	<u>\$ 138,703</u>	<u>\$ 187,303</u>	<u>-385.40%</u>

The Township's Funds

Our analysis of the Township's major funds is listed in the audit report, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2006 include the General Fund and the Road Fund.

The General Fund pays for most of the Township's governmental services. The most significant are for general government activities, pool operations and public safety activities (fire department), which incurred expenses of approximately \$63,853, \$10,799 and \$9,004, respectively, in 2006. These services are supported by the operating millage and State shared revenues.

WELLS TOWNSHIP--MARQUETTE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended March 31, 2006

General Fund Budgetary Highlights

Over the course of the year, the Township Board amended the budget to take into account events during the year. No significant changes were made to the current year budget.

Capital Asset and Debt Administration

At the end of 2006, the Township had \$265,531 invested in a broad range of capital assets, including buildings, equipment, vehicles, and the recreational facility (pool and tennis courts). To pay for its share of the Marquette County landfill expansion, the township entered into a bond agreement debt obligation with a remaining balance of \$3,985.

Economic Factors and Next Year's Budgets and Rates

The Township's budget for 2006/2007 will be decreased in the General Fund due to the Township not anticipating any state grants in 2006/2007. We will also be looking at increases in road work in the Road Fund for the new projects which were negotiated for 2006/2007. The Township expects the remaining revenues and expenses to remain consistent with last year.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township Clerk's Office at: 2641 County Road SA/SC, Cornell, Michigan 49818.

WELLS TOWNSHIP--MARQUETTE COUNTY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2006

EXHIBIT A

<u>ASSETS</u>	<u>Governmental Activities</u>
Current Assets	
Cash and Cash Equivalents	\$1,055,509
Delinquent Taxes Receivable	17,651
Due From State	3,336
Due From Other Agencies	<u>214</u>
Total Current Assets	<u>1,076,710</u>
Noncurrent Assets	
Capital Assets--Net of Accumulated Depreciation	<u>265,531</u>
Total Noncurrent Assets	<u>265,531</u>
Total Assets	<u><u>\$1,342,241</u></u>
<u>LIABILITIES</u>	
Current Liabilities	
Accounts Payable	\$ 1,128
Accrued Liabilities	<u>827</u>
Total Current Liabilities	<u>1,955</u>
Long-Term Liabilities	
Bonds Payable--Due Within One Year	881
Bonds Payable--Due in More Than One Year	<u>3,104</u>
Total Noncurrent Liabilities	<u>3,985</u>
Total Liabilities	<u>5,940</u>
<u>NET ASSETS</u>	
Net Assets	
Investment in Capital Assets--Net of Related Debt	261,546
Restricted for	
Roads	874,085
Liquor Law Enforcement	650
Unrestricted	<u>200,020</u>
Total Net Assets	<u><u>\$1,336,301</u></u>

The Notes to Financial Statements are an integral part of this statement.

WELLS TOWNSHIP--MARQUETTE COUNTY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2006

EXHIBIT B

<u>Functions/Programs</u>	<u>PROGRAM REVENUES</u>			NET (EXPENSE)
	<u>Expenses</u>	<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	REVENUE AND CHANGES IN NET ASSETS
				<u>Total</u>
Governmental Activities				
General Government	\$ 68,985	\$ 330		\$ (68,655)
Public Safety	11,678			(11,678)
Public Works	11,796			(11,796)
Community and Economic Development	2,132			(2,132)
Recreation and Culture	15,034			(15,034)
Interest on Long-Term Debt	313			(313)
Total Governmental Activities	<u>\$ 109,938</u>	<u>\$ 330</u>	<u>\$ -</u>	<u>\$ (109,608)</u>
General Revenues				
Property Taxes				\$ 181,165
State-Shared Revenues				25,285
Commercial Forest Reserve				7,337
Unrestricted Investment Earnings				19,216
Other				<u>2,372</u>
Total General Revenues				<u>235,375</u>
Change in Net Assets				125,767
Net Assets--Beginning				<u>1,210,534</u>
Net Assets--Ending				<u>\$ 1,336,301</u>

The Notes to Financial Statements are an integral part of this statement.

WELLS TOWNSHIP--MARQUETTE COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2006

EXHIBIT C

	<u>SPECIAL REVENUE FUNDS</u>			Total Governmental Funds
	General	Road	Liquor Law Enforcement	
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 189,566	\$ 865,279	\$ 664	\$ 1,055,509
Taxes Receivable	8,845	8,806		17,651
Due From State	3,336			3,336
Due From Other Funds	214			214
Total Assets	<u>\$ 201,961</u>	<u>\$ 874,085</u>	<u>\$ 664</u>	<u>\$ 1,076,710</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities				
Accounts Payable	\$ 1,114		\$ 14	\$ 1,128
Accrued Liabilities	827			827
Total Liabilities	<u>1,941</u>	<u>\$ -</u>	<u>14</u>	<u>1,955</u>
Fund Equity				
Fund Balances				
Reserved for				
Roads		874,085		874,085
Liquor Law Enforcement			650	650
Unreserved--Undesignated	200,020			200,020
Total Fund Equity	<u>200,020</u>	<u>874,085</u>	<u>650</u>	<u>1,074,755</u>
Total Liabilities and Fund Equity	<u>\$ 201,961</u>	<u>\$ 874,085</u>	<u>\$ 664</u>	<u>\$ 1,076,710</u>
Fund Balances--Total Governmental Funds				\$ 1,074,755
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds.				265,531
Long-term liabilities are not due and payable in the current period and are not reported in the funds.				<u>(3,985)</u>
Net Assets of Governmental Activities				<u>\$ 1,336,301</u>

The Notes to Financial Statements are an integral part of this statement.

WELLS TOWNSHIP--MARQUETTE COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES--GOVERNMENTAL FUNDS
For the Year Ended March 31, 2006

EXHIBIT D

	<u>SPECIAL REVENUE FUNDS</u>			Total
	General	Road	Liquor Law Enforcement	Governmental Funds
Revenues				
Taxes and Penalties	\$ 106,834	\$ 81,668		\$ 188,502
State Grants	42,488		\$ 921	43,409
Fines and Forfeits	330			330
Interest and Rentals	1,790	17,426		19,216
Other Revenue	2,372			2,372
Total Revenues	153,814	99,094	921	253,829
Expenditures				
Current				
General Government	63,853			63,853
Public Safety	8,134		870	9,004
Public Works	9,265	2,531		11,796
Community and Economic Development	2,132			2,132
Recreational and Cultural	10,799			10,799
Capital Outlay	16,432			16,432
Debt Service				
Principal	797			797
Interest	313			313
Total Expenditures	111,725	2,531	870	115,126
Excess of Revenues Over (Under) Expenditures	42,089	96,563	51	138,703
Fund Balance--April 1, 2005	157,931	777,522	599	936,052
Fund Balance--March 31, 2006	\$ 200,020	\$ 874,085	\$ 650	\$ 1,074,755
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses				\$ 138,703

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

Add--Capital Outlay	16,432
Deduct--Depreciation Expense	(12,041)

Long-term revenues are recorded in the Statement of Activities when the revenue is earned; they are not reported in the funds if collected after 60 days of year end.	(18,124)
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Repayments of bond principal is an expenditure in the governmental funds, but not in the Statement of Activities (where it reduces the long-term debt).	797
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Change in Net Assets of Governmental Activities	\$ 125,767
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The Notes to Financial Statements are an integral part of this statement

WELLS TOWNSHIP--MARQUETTE COUNTY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
March 31, 2006

EXHIBIT E

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	<u>\$ 1,234</u>
Total Assets	<u><u>\$ 1,234</u></u>
<u>LIABILITIES</u>	
Liabilities	
Due to General Fund	\$ 214
Due to Other Units of Government	<u>1,020</u>
Total Liabilities	<u><u>\$ 1,234</u></u>

The Notes to Financial Statements are an integral part of this statement.

WELLS TOWNSHIP--MARQUETTE COUNTY

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended March 31, 2006

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Wells Township (township) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Wells Township:

Reporting Entity

Wells Township is located in Marquette County and provides services to its residents in many areas including fire protection, community enrichment and development, and human services. Wells Township is a general law township governed by a five-member board elected by the citizens of Wells Township. The township board consists of the supervisor, clerk, treasurer and two trustees.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the township. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. There are no other units that should be included in the financial statements.

The following entity is not included in the township's financial statements but does represent an ongoing financial interest or responsibility.

Joint Venture

The township is a member of the Marquette County Solid Waste Management Authority (Authority), a joint venture of the township and 21 other municipalities. The Authority was created pursuant to Act 233 of 1955 to plan for, acquire, construct, finance, operate, maintain, repair and dispose of, whether by sale, lease or otherwise, an Act 641 landfill including all improvements, appurtenances, easements, accessory facilities and structures, equipment, and other property part of or incidental to the landfill sufficient to satisfy the requirements of, and function as a solid waste disposal area under Act 641; to establish and administer procedures providing for the separation, recycling, recovery, conversion of solid waste to energy and for the disposition of such energy output and disposal at the site of Non-Toxic Type II and Type III Solid Waste; to fund all of the above activities; charge and collect fees in connection with the operation of the landfill; and to provide for the reimbursement with receipt of bond proceeds to the City of Marquette and Sands Township of their respective costs and expenses incurred in connection with the establishment and administration of the Solid Waste Authority and the System Facility.

The Authority is governed by a board of trustees consisting of one member (who shall be the chairperson of the board of trustees) designated by the Sands Township Supervisor on behalf of the Sands Township, two members designated by the Marquette City Council, three members designated by the Marquette County Board of Commissioners, and one resident of the City of Marquette appointed by the other six authority board members.

WELLS TOWNSHIP--MARQUETTE COUNTY

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended March 31, 2006

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City of Marquette has pledged its full faith and credit for the Marquette County Solid Waste Management Bonds, Series 1988. These bonds are payable from the net revenues of the authority, as well as by each member of the authority to the extent of their pro rata share of the principal and interest requirement on the bonds. The township is a guarantor by pledging the full faith and credit of the township for its allocated portion of bonds issued by the authority in the amount of \$3,985 principal and \$554 interest outstanding as of March 31, 2006 at a variable interest rate for 20 years. The amount is included as a liability in the accompanying financial statements. The authority allocates and charges as an operating expense annual fixed costs to each participant, including debt requirement of the authority's bonds that are guaranteed by the township. The annual amount including interest ranges from \$1,000 to \$1,200 per year and is included as principal and interest expenditures in the accompanying financial statements.

In addition, bonds were issued to finance the township's portion of the initial construction costs and site search. These bonds are recorded as a liability in the Statement of Net Assets.

The audited financial statements of the Marquette County Solid Waste Management Authority can be obtained at 600 County Road NP, Marquette, Michigan 49855.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

WELLS TOWNSHIP--MARQUETTE COUNTY

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended March 31, 2006

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

When both restricted and unrestricted resources are available for use, it is the township's policy to use restricted resources first, then unrestricted resources as they are needed.

The township reports the following major governmental funds:

The General Fund is the township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Liquor Law Enforcement Fund accounts for enforcement of the liquor laws in Wells Township and the fees relating to the enforcement of such laws.

The Road Fund accounts for road maintenance and improvements; and is funded by a property tax millage.

WELLS TOWNSHIP--MARQUETTE COUNTY

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended March 31, 2006

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the township reports the following fund type:

Agency Funds--These funds account for assets held on behalf of outside parties, including other governments.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Deposits and Investments

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements, outstanding at the end of the fiscal year, are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

WELLS TOWNSHIP--MARQUETTE COUNTY

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended March 31, 2006

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

	<u>Governmental Funds</u>
Building and Building Improvements	20 to 40 years
Vehicles	3 to 10 years
Equipment	5 to 10 years

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Long-Term Obligations

In the government-wide financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

WELLS TOWNSHIP--MARQUETTE COUNTY

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended March 31, 2006

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted by the township board for the General Fund and Special Revenue Funds. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. The township board monitors and amends the budget as necessary. Unexpended appropriations lapse at year end. Budgeted revenues and expenditures include any authorized amendments to the original budget as adopted. The budget adopted does not comply with all requirements established by Public Act 2 of 1968, as amended.

Excess of Expenditures over Appropriations in Budgeted Funds

Public Act 2 of 1968, as amended, requires the legislative body to adopt a General Appropriations Act for the budget of the General Fund and each Special Revenue Fund. The Act also requires that amendments be approved as needed to prevent actual expenditures from exceeding those provided for in the General Appropriations Act.

The township's budget policy provides for the board to adopt and control the General Fund and Special Revenue Funds to the activity level. During the year ended March 31, 2006, expenditures were incurred in excess of amounts appropriated in the following funds and activities.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General			
Debt Service--Principal	\$ -	\$ 797	\$ (797)
Debt Service--Interest		313	(313)

WELLS TOWNSHIP--MARQUETTE COUNTY

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended March 31, 2006

NOTE C--CASH AND INVESTMENTS

Michigan Compiled Laws (MCL), Section 129.91, authorizes the township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Wells Township Board has designated one bank for the deposit of township funds. The board has not adopted an investment policy in accordance with Public Act 20 of 1943, as amended, to authorize investment in the instruments described in the preceding paragraph. The township's deposits are in accordance with statutory authority.

At year end, the township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	<u>\$ 1,055,509</u>	<u>\$ 1,234</u>	<u>\$1,056,743</u>
Total	<u><u>\$ 1,055,509</u></u>	<u><u>\$ 1,234</u></u>	<u><u>\$1,056,743</u></u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 1,056,743
Petty Cash and Cash on Hand	
Total	<u><u>\$ 1,056,743</u></u>

At March 31, 2006, the bank balance of the primary government's deposit is \$1,077,473, of which \$100,000 is covered by Federal depository insurance.

WELLS TOWNSHIP--MARQUETTE COUNTY

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended March 31, 2006

NOTE C--CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. The township does not have an investment policy requiring asset diversification.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The township has not adopted a policy to address this risk. At March 31, 2006, the township did not have any investments.

NOTE D--PROPERTY TAXES/SPECIAL ASSESSMENTS

Property Taxes

The township property tax is levied on each December 1st on the taxable valuation of property located in the township as of the preceding December 31st. It is the township's policy to recognize revenues in the current year when the proceeds are budgeted and made available for the financing of township operations. Payment from the county for the 2005 delinquent taxes, which it purchased subsequent to March 31st, is recorded as delinquent taxes receivable in the General Fund.

The 2005 taxable value of Wells Township amounted to \$24,914,425, on which ad valorem taxes of .2895 mills were levied for township operating purposes and .29892 mills were levied for roads. The 2005 current tax levy raised \$63,391 for township operating and \$65,515 for road maintenance and is recorded as revenue on township records in the General Fund and Road Fund, respectively, for the fiscal year ended March 31, 2006.

Taxes Receivable--Delinquent

The taxes receivable delinquent in the General Fund of \$8,845 and Road Fund of \$8,806 consist of uncollected real property taxes levied December 1, 2005, which have not been collected at March 31, 2006.

WELLS TOWNSHIP--MARQUETTE COUNTY

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended March 31, 2006

NOTE E--INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The amounts of interfund receivables and payables between funds are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>\$ 214</u>	Agency Funds	<u>\$ 214</u>
Total Primary Government	<u><u>\$ 214</u></u>		<u><u>\$ 214</u></u>

NOTE F--CAPITAL ASSETS

Capital asset activity of the township for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance 03/31/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 03/31/06</u>
Capital Assets Not Being Depreciated				
Land	<u>\$ 10,000</u>	<u> </u>	<u> </u>	<u>\$ 10,000</u>
Subtotal	<u>10,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>10,000</u>
Capital Assets Being Depreciated				
Buildings and Building Improvements	397,276	5,262		402,538
Equipment	50,000	11,170		61,170
Vehicles	<u>258,971</u>	<u> </u>	<u> </u>	<u>258,971</u>
Subtotal	<u>706,247</u>	<u>16,432</u>	<u>-</u>	<u>722,679</u>
Less Accumulated Depreciation for				
Buildings and Building Improvements	151,236	10,364		161,600
Equipment	50,000	931		50,931
Vehicles	<u>253,871</u>	<u>746</u>	<u> </u>	<u>254,617</u>
Subtotal	<u>455,107</u>	<u>12,041</u>	<u>-</u>	<u>467,148</u>
Net Capital Assets Being Depreciated	<u>251,140</u>	<u>4,391</u>	<u>-</u>	<u>255,531</u>
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u><u>\$ 261,140</u></u>	<u><u>\$ 4,391</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 265,531</u></u>

The depreciation expense for 2006 was \$12,041.

WELLS TOWNSHIP--MARQUETTE COUNTY

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended March 31, 2006

NOTE F--CAPITAL ASSETS

Depreciation expense was charged to programs of the primary government, as follows:

Governmental Activities	
General Government	\$ 5,132
Public Safety	2,674
Recreational and Cultural	<u>4,235</u>
Total Governmental Activities	<u>\$12,041</u>

NOTE G--LONG-TERM DEBT

The individual long-term debt and other general long-term obligations of Wells Township, and the changes therein, may be summarized as follows:

	<u>Balance</u> <u>04/01/05</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>03/31/06</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities</u>				
Wells Township portion of the Marquette County Solid Waste Management Authority Bond Series 1988 for 20 years at an average coupon rate of 4.919% for the expansion of the landfill.	<u>\$ 4,782</u>	<u>\$ (797)</u>	<u>\$ 3,985</u>	<u>\$ 881</u>
Total Governmental Activities	<u>\$ 4,782</u>	<u>\$ (797)</u>	<u>\$ 3,985</u>	<u>\$ 881</u>

The annual interest and principal requirements of Wells Township's long-term borrowing is summarized as follows:

Date of Issue: October 27, 1988

Amount: \$11,222

Purpose: Marquette County Landfill Expansion

<u>Interest</u> <u>Rate</u>	<u>Date of</u> <u>Maturity</u>	<u>Annual</u> <u>Maturity</u> <u>May 1</u>	<u>Annual</u> <u>Interest</u> <u>Payments</u>	<u>Total Annual</u> <u>Requirements</u>
4.919%	2006	\$ 881	\$ 246	\$ 1,127
4.919%	2007	944	176	1,120
4.919%	2008	1,028	104	1,132
4.919%	2009	<u>1,132</u>	<u>28</u>	<u>1,160</u>
Total		<u>\$ 3,985</u>	<u>\$ 554</u>	<u>\$ 4,539</u>

WELLS TOWNSHIP--MARQUETTE COUNTY

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended March 31, 2006

NOTE H--RISK MANAGEMENT

Wells Township is exposed to various risks of loss related to property loss, torts, and errors and omissions and employees injuries (workers' compensation). The township has purchased commercial insurance coverage through various policies for general liability, property, vehicle and workmans' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

WELLS TOWNSHIP--MARQUETTE COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended March 31, 2006

EXHIBIT F

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 105,200	\$ 105,200	\$ 106,834	\$ 1,634
State Grants	43,500	43,500	42,488	(1,012)
Fines and Forfeits	100	100	330	230
Interest and Rentals	2,500	2,500	1,790	(710)
Other Revenues	1,950	1,950	2,372	422
Total Revenue	153,250	153,250	153,814	564
Expenditures				
General Government	92,950	92,950	63,853	29,097
Public Safety	23,150	23,150	8,134	15,016
Public Works	12,100	12,100	9,265	2,835
Community and Economic Development	3,500	3,500	2,132	1,368
Recreation and Cultural	22,200	22,200	10,799	11,401
Capital Outlay	17,134	17,134	16,432	702
Debt Service--Principal	-	-	797	(797)
Debt Service--Interest	-	-	313	(313)
Total Expenditures	171,034	171,034	111,725	59,309
Excess of Revenues Over (Under) Expenditures	(17,784)	(17,784)	42,089	59,873
Fund Balance--April 1, 2005	157,931	157,931	157,931	-
Fund Balance--March 31, 2006	\$ 140,147	\$ 140,147	\$ 200,020	\$ 59,873

The Notes to Financial Statements are an integral part of this statement.

**WELLS TOWNSHIP--MARQUETTE COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
ROAD FUND--MAJOR SPECIAL REVENUE FUND
For the Year Ended March 31, 2006**

EXHIBIT G

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes				
Current Property Taxes	\$ 71,000	\$ 71,000	\$ 65,515	\$ (5,485)
Delinquent Property Taxes	4,500	4,500	8,816	4,316
Commercial Forest Reserve	8,000	8,000	7,337	(663)
Interest	13,000	13,000	17,426	4,426
Total Revenues	96,500	96,500	99,094	2,594
Expenditures				
Public Works	70,500	70,500	2,531	67,969
Total Expenditures	70,500	70,500	2,531	67,969
Excess of Revenues Over (Under) Expenditures	26,000	26,000	96,563	70,563
Fund Balance--April 1, 2005	777,522	777,522	777,522	-
Fund Balance--March 31, 2006	<u>\$ 803,522</u>	<u>\$ 803,522</u>	<u>\$ 874,085</u>	<u>\$ 70,563</u>

The Notes to Financial Statements are an integral part of this statement.

**WELLS TOWNSHIP--MARQUETTE COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
LIQUOR LAW ENFORCEMENT FUND
MAJOR SPECIAL REVENUE FUND
For the Year Ended March 31, 2006**

EXHIBIT H

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State Grants	\$ 800	\$ 800	\$ 921	\$ 121
Total Revenues	800	800	921	121
Expenditures				
Public Safety	1,200	1,200	870	330
Total Expenditures	1,200	1,200	870	330
Excess of Revenues Over (Under) Expenditures	(400)	(400)	51	451
Fund Balance--April 1, 2005	599	599	599	-
Fund Balance--March 31, 2006	<u>\$ 199</u>	<u>\$ 199</u>	<u>\$ 650</u>	<u>\$ 451</u>

The Notes to Financial Statements are an integral part of this statement.

WELLS TOWNSHIP--MARQUETTE COUNTY
COMBINING STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
March 31, 2006

EXHIBIT I

	<u>AGENCY FUNDS</u>		
	Trust and Agency	Tax Collection	Total
<u>ASSETS</u>			
Cash	\$ 27	\$ 1,207	\$ 1,234
Total Assets	\$ 27	\$ 1,207	\$ 1,234
<u>LIABILITIES</u>			
Liabilities			
Due to General Fund	\$ 27	\$ 187	\$ 214
Due to Other Units of Government		1,020	1,020
Total Liabilities	\$ 27	\$ 1,207	\$ 1,234

WELLS TOWNSHIP--MARQUETTE COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING USES
BY ACTIVITY--BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended March 31, 2006

EXHIBIT J

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Taxes and Penalties				
Current Property Taxes	\$ 70,500	\$ 70,500	\$ 63,391	\$ (7,109)
Delinquent Real Property Taxes	4,500	4,500	8,540	4,040
Swamp Tax	14,500	14,500	14,369	(131)
Commercial Forest Reserve	7,500	7,500	7,106	(394)
Summer Tax Collection Fees	-	-	4,848	4,848
Administration Fees	8,200	8,200	8,580	380
Total Taxes and Penalties	105,200	105,200	106,834	1,634
State Grants				
State Revenue Sharing	22,000	22,000	20,565	(1,435)
Metro Act	-	-	538	538
Tennis Court Grant	20,000	20,000	18,124	(1,876)
Fire Department Grant	1,500	1,500	3,261	1,761
Total State Grants	43,500	43,500	42,488	(1,012)
Fines and Forfeits				
Zoning Fees	100	100	330	230
Total Fines and Forfeits	100	100	330	230
Interest and Rents				
Interest Earned	2,000	2,000	1,510	(490)
Hall Rental	500	500	280	(220)
Total Interest and Rents	2,500	2,500	1,790	(710)
Other Revenues				
Other Revenues	1,950	1,950	2,372	422
Total Other Revenues	1,950	1,950	2,372	422
Total Revenues	\$ 153,250	\$ 153,250	\$ 153,814	\$ 564

WELLS TOWNSHIP--MARQUETTE COUNTY
SCHEDULE OF EXPENDITURES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended March 31, 2006

EXHIBIT K

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
General Government				
Township Board	\$ 2,800	\$ 2,800	\$ 2,457	\$ 343
Supervisor	5,000	5,000	4,811	189
Audit	3,000	3,000	2,100	900
Assessor	16,200	16,200	15,387	813
Clerk	6,000	6,100	5,619	481
Board of Review	500	500	454	46
Treasurer	12,200	12,200	10,709	1,491
Elections	500	500	-	500
Building and Grounds	36,750	36,650	21,843	14,807
Cemetery	10,000	10,000	473	9,527
Total General Government	92,950	92,950	63,853	29,097
Public Safety				
Emergency Services	6,150	6,150	-	6,150
Fire Department	17,000	17,000	8,134	8,866
Total Public Safety	23,150	23,150	8,134	15,016
Public Works				
Street Lights	1,600	1,600	1,583	17
Waste Disposal	10,500	10,500	7,682	2,818
Total Public Works	12,100	12,100	9,265	2,835
Community and Economic Development				
Zoning Board of Appeals	3,500	3,500	2,132	1,368
Total Community and Economic Development	3,500	3,500	2,132	1,368
Recreational and Cultural				
Parks	22,200	22,200	10,799	11,401
Total Recreational and Cultural	22,200	22,200	10,799	11,401
Capital Outlay	17,134	17,134	16,432	702
Debt Service				
Principal	-	-	797	(797)
Interest	-	-	313	(313)
Total Debt Service	-	-	1,110	(1,110)
Total Expenditures	\$ 171,034	\$ 171,034	\$ 111,725	\$ 59,309



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

September 3, 2008

Township of Wells
Board of Trustees
38295 County Road 426
Arnold, Michigan 49819

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wells Township, Marquette County, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the township's basic financial statements and have issued our report thereon dated September 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the township's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the township's ability to initiate, authorize, record,

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the township's financial statements that is more than inconsequential will not be prevented or detected by the township's internal control. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting which are listed as Findings 2006-1 through 2006-10.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the township's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 2006-1 through 2006-5 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings as Findings 2006-12 through 2006-21.

This report is intended solely for the information and use of the management, the township board, others within the township, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

September 3, 2008

Township of Wells
Board of Trustees
38295 County Road 426
Arnold, Michigan 49819

Re: Report to Those Charged With Governance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wells Township for the year ended March 31, 2006, and have issued our report thereon dated September 3, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in the engagement letter dated June 12, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Wells Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Wells Township's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures to specifically identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 12, 2008.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Wells Township are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ending March 31, 2006. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 3, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Trustees and management of Wells Township and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

WELLS TOWNSHIP--MARQUETTE COUNTY

SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the township's financial statements that is more than inconsequential will not be prevented or detected by the township's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that could result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Listed below are material weaknesses and significant deficiencies in the internal control.

The township is small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the significant deficiencies and other matters listed below. Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

MATERIAL WEAKNESSES

Preparation of Financial Statements in Accordance With GAAP

Finding 2006-1

Condition: As many small and medium-sized governmental entities do, the township has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and notes to financial statements as part of its external financial reporting process. Accordingly, the township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered to be a part of the township's *internal* controls.

Cause: This condition was caused by the township's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for township personnel to prepare them internally.

Effect: The township lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this duty.

WELLS TOWNSHIP--MARQUETTE COUNTY

SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

MATERIAL WEAKNESSES (Continued)

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both: 1) recording, processing and summarizing accounting data (maintaining internal accounting books and records); and 2) reporting government-wide and fund financial statements, including the related notes to financial statements (external financial reporting).

Recommendation: We recommend that the township board evaluate the cost versus benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determine if it is in the best interests of the township to outsource this duty to its external auditors. If the township continues to rely on its external auditors to prepare the financial statements, we recommend the board designate a responsible township official to carefully review the draft financial statements including the notes, prior to approving them and accepting responsibility for their content and presentation.

Material Audit Adjustments

Finding 2006-2

Condition: During our audit, we identified and proposed numerous material adjustments, which were approved and posted by management, to adjust the township's general ledger to the audited balances. These adjustments included recording the effect of prior year accruals for receivables and payables, recording current year accruals for receivables and payables, balancing interfund transactions and properly allocating tax revenue.

Effect: The township accounting records were initially misstated by amounts material to the financial statements.

Criteria: Management is responsible for maintaining the township's accounting records in accordance with generally accepted accounting principles (GAAP).

Recommendation: We recommend that the township board provide for appropriate training for its accounting personnel. This will provide management with the necessary skills for reconciling all township accounts both at year end and throughout the fiscal year. This will result in more accurate and meaningful data to the board for decision making and to reduce the cost of the annual audit.

WELLS TOWNSHIP--MARQUETTE COUNTY

SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

MATERIAL WEAKNESSES (Continued)

Segregation of Incompatible Duties

Finding 2006-3

Condition: As is the case with many organizations of similar size, the township lacks a sufficient number of accounting personnel to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have resulted in a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitation on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

Effect: The township is exposed to an increased risk that misstatements or misappropriations may occur and not be detected by management on a timely basis.

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the township's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the township's unique circumstances.

Recommendation: Although it is difficult to balance the costs and benefits of internal controls and the segregation of duties, we nonetheless encourage management to actively seek ways to further strengthen its internal controls by requiring as much independent review, reconciliation and approval of accounting functions by qualified township personnel as possible.

Cash Collections and Receipting Process

Finding 2006-4

Condition: One person is primarily responsible for opening mail, preparing receipts and making deposits with the bank. The township is relatively small in size with officers working out of their homes. Therefore, there is an overall lack of segregation of duties.

Criteria: Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

WELLS TOWNSHIP--MARQUETTE COUNTY

SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

MATERIAL WEAKNESSES (Continued)

Recommendation: Although there will always be a lack of segregation of duties, there can be other controls in place to reduce the weaknesses associated with the lack of segregation of duties. Another person could randomly compare the sequence of receipts and the total of those receipts with the deposit slip. There could be other controls that the township could implement as long as another person is involved within the process. We recommend that responsible township personnel implement controls over the cash collection, receipting and depositing process.

Accounts Payable/Disbursements

Finding 2006-5

Condition: There is no indication on vendor invoices that the extensions, footings, discounts and freight items were checked for accuracy or that a responsible employee reviews and approves the invoice account distribution and approves for payment. We also found that some payments did not include adequate supporting documentation (some were paid from statements or documentation was missing).

Criteria: According to the Accounting Procedures Manual, the following are required procedures relating to cash disbursements:

- Dual signatures are required for all checks;
- Appropriate documentation (supporting invoices) must be attached to check copies for all disbursements. Vouchers must describe the payment to be made, indicate the account number to be charged, and be signed by the person approving the disbursement;
- Original bills, not copies, must be used for documentation;
- All disbursements must be approved by the legislative body prior to disbursement. The board may establish a formal policy to authorize limited payments prior to approval to avoid finance and late charges as well as to pay appropriated amounts and payroll (including related payroll taxes and withholdings). These disbursements must still be approved after payment is made;
- Bank accounts must be promptly reconciled by an individual not involved in the receipt/bank deposit process. In small units of government when segregation of duties is not possible, a second official must review the reconciliation;
- Adequate security must be provided over unused checks.

Recommendation: We recommend the township revise its accounts payable policies to incorporate the controls noted above.

WELLS TOWNSHIP--MARQUETTE COUNTY

SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

SIGNIFICANT DEFICIENCIES

Treasurer--Journal Entries

Finding 2006-6

Condition: The township did not use journal entries during the fiscal year ended March 31, 2006. Receipts were used to record interest credited on bank account statements.

Criteria: Receipts should be used only to record collections received in person or by mail. Journal entries should be used to record collections credited directly to bank accounts, such as interest, wire transfers and electronic fund transfers. Journal entries should also be used to record other transactions. Examples include transfers of money from one fund or account to another within the same bank account, establishing certain accounts receivable and accounts payable, corrections of errors and other adjusting entries. Journal entries should be sequentially numbered by year. Each journal entry should contain adequate explanation and supporting documentation, and should have an independent review. Required procedures for journal entries are explained in detail in Chapter 7--General Ledger/Journal Entries of the Accounting Procedures Manual for Local Units of Government in Michigan.

Recommendation: We recommend that the township treasurer issue receipts only for collections received in person or through the mail. Sequentially numbered journal entries should be used to account for transfers of funds between bank accounts and interest credited to bank accounts. Journal entries should also be used to make corrections and any other adjusting entries deemed necessary.

Capital Assets--General Ledger

Finding 2006-7

Condition: Capital assets are not recorded in the township's general ledger.

Criteria: Per the Accounting Procedures Manual for Local Units of Government, it is essential that the amount of capital assets be recorded within the local unit's general ledger and the general ledger must be supported by detailed subsidiary ledgers.

Recommendation: We recommend that the township record capital assets in the general ledger and that subsidiary ledgers be reconciled to the general ledger at least annually.

Capitalization Policy

Finding 2006-8

Condition: The township does not have a capitalization policy.

Criteria: Per the Accounting Procedures Manual for Local Units of Government, each local unit should have a written capital asset policy that addresses asset capitalization and asset retirement/sale practices (setting a dollar threshold and perhaps a useful life threshold).

Recommendation: We recommend that the township adopt a capitalization policy.

WELLS TOWNSHIP--MARQUETTE COUNTY

SCHEDULE OF FINDINGS
Fiscal Year Ended March 31, 2006

SIGNIFICANT DEFICIENCIES (Continued)

Trust and Agency Funds

Finding 2006-9

Condition: The township receives interest on the bank accounts for the Tax Collection Fund (Fund 703) and the Trust and Agency Fund (Fund 701). The interest is left in the bank accounts.

Criteria: The agency funds should only have asset and liability accounts to account for money that is passed through the township. When interest is received, it should be transferred to the General Fund.

Recommendation: We recommend that the township transfer the interest in the Tax Collection Fund and the Trust and Agency Fund to the General Fund, at least annually.

Deposits and Investments

Finding 2006-10

Condition: The township has all deposits in one financial institution. The bank balance as of March 31, 2006 was \$1,077,473, of which the federally insured amount was \$100,000, leaving \$977,473 uninsured.

Criteria: GASB Statement No. 40 indicates that a "Concentration of Credit Risk" is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The township's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

Recommendation: We recommend that the township diversify its deposits to a higher degree.

Long-Term Debt--General Ledger

Finding 2006-11

Condition: Debt was not properly classified or reflected in the general ledger and was not reconciled to the general ledger.

Criteria: All expenditures should be properly classified and all debt is required to be reported in the GASB Statement No. 34 financial statements.

Recommendation: We recommend that the township properly record all bond payments as principal and interest.

WELLS TOWNSHIP--MARQUETTE COUNTY

SCHEDULE OF FINDINGS
Fiscal Year Ended March 31, 2006

STATUTORY COMPLIANCE

Our examination revealed the following instances of noncompliance with State statutes.

General Appropriations Act

Finding 2006-12

Condition: The township board adopts the General Appropriations Act after commencement of the budget year.

Criteria: Per the provisions of Section 14 of Public Act 2 of 1968, as amended, the time schedule for preparation of the fiscal year budget shall allow adequate time for review and adoption by the legislative body before commencement of the budget year.

Directive: We direct the township to prepare and adopt a General Appropriations Act prior to the beginning of the budget year.

Township Board--Expenditures in Excess of Appropriations

Finding 2006-13

Condition: The township's 2005/2006 General Appropriations Act (budget) provided for expenditures of the General Fund and the Special Revenue Funds to be controlled at the activity level by the township. During the fiscal year ended March 31, 2006, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Debt Service			
Principal	\$ -	\$ 797	\$ (797)
Interest	-	313	(313)

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968, as amended.

Directive: We direct the township to develop budgetary control procedures for the General Fund and the Special Revenue Funds which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Social Security Number Privacy Policy

Finding 2006-14

Condition: The township has not adopted a social security number privacy policy. The social security numbers were included on all payroll related reports.

Criteria: The Michigan Social Security Number Privacy Act, Public Act 454 of 2004 requires that all entities adopt a social security privacy policy for the protection of employees.

Directive: We direct that the township adopt a social security privacy policy.

WELLS TOWNSHIP--MARQUETTE COUNTY

SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

STATUTORY COMPLIANCE (Continued)

Cash Balances--All Funds and Bank Accounts

Finding 2006-15

Condition: The township has not maintained an accurate accounting of the receipts, expenditures and cash balances of township money.

The general ledger included records for only the General Fund, Road Fund and Liquor Law Enforcement Fund. We could find no Current Tax Collection Fund records or Trust and Agency Fund records in the general ledger.

Criteria: MCL 41.78 states: "Each township treasurer shall keep an accurate account of the receipts and expenditures of township money in a book, which meets the uniform accounting requirement of the state treasurer. The book shall reflect the amount of money belonging to each of the several funds of the township and shall be delivered to the township treasurer's successor in office. The book...used by the treasurer in the performance of an official function, shall be made available to the public in compliance with the Freedom of Information Act, Act No. 442 of the Public Acts of 1976."

Directive: We direct the township to include all bank accounts in the general ledger of the township and maintain an accurate account of the receipts and expenditures and cash balances of all township money to comply with statutory requirements.

Electronic Transactions of Public Funds

Finding 2006-16

Condition: The township electronically transfers funds for payroll withholdings with no statutory authority.

Criteria: According to MCL 124.303: "A local unit shall not be a party to an ACH arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- a) That an officer or employee designated by the treasurer is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.

WELLS TOWNSHIP--MARQUETTE COUNTY

SCHEDULE OF FINDINGS
Fiscal Year Ended March 31, 2006

STATUTORY COMPLIANCE (Continued)

- c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- d) The approval of ACH invoices before payment.
- e) Any other matters the treasurer considers necessary.”

Directive: We direct that the township adopt a resolution and a policy to authorize electronic transactions that includes the above mentioned items.

Freedom of Information Act

Finding 2006-17

Condition: The township has not adopted a Freedom of Information Act policy.

Criteria: The township is required to establish and publish procedures and guidelines to comply with Section 4 of Public Act 442 of 1976.

Recommendation: We recommend that the township adopt a Freedom of Information policy that includes the requirements of Public Act 442 of 1976.

Township Board--Violations of Public Act 2 of 1968--Audit

Finding 2006-18

Condition: The township has not submitted an audit report for the year ended March 31, 2006.

Criteria: Per PA 2 of 1968, local units of government are required to have an annual audit, except in the instance of units of less than 4,000 population, which have a minimum requirement of an audit not less frequently than every two years.

Directive: Whereas the township did not submit the audit for the fiscal year ended March 31, 2006 on a timely basis, the Department of Treasury has conducted the audit. The entire cost of the audit will be the responsibility of the township.

WELLS TOWNSHIP--MARQUETTE COUNTY

SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

OTHER MATTERS

Investment Policy

Finding 2006-19

Condition: The township does not have an investment policy that contains credit risk assessments and disclosures for investments as required by GASB Statement No. 40.

Criteria: For years beginning after June 30, 2004, GASB Statement No. 40 requires governmental units to have an investment policy that contains investment risk assessments and additional disclosure requirements for investments.

Directive: We direct the township board to adopt an investment policy that includes the requirements of GASB Statement No. 40.

Township Board--Fraud Risk Management Program

Finding 2006-20

Condition: The township has not developed a fraud risk management program that is appropriate for the size and complexity of the entity, including identifying fraud risks and taking appropriate action to reduce or eliminate the risks.

Criteria: Statements on Auditing Standards (SAS) are issued by the American Institute of Certified Public Accountants (AICPA). SAS AU 110.03 states in part: "Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements." Management, along with those who have responsibility for oversight of the financial reporting process (such as the audit committee, board of trustees, board of directors, or the owner in owner-managed entities), should set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud. When management and those responsible for the oversight of the financial reporting process fulfill those responsibilities, the opportunities to commit fraud can be reduced significantly.

Recommendation: We recommend that the township develop a fraud risk management program.

Township Board--Conflict of Interest Policy

Finding 2006-21

Condition: The township has not adopted and communicated to employees/elected officials a specific policy on conflict of interest that specifies that personnel in a position of trust are not related to each other; employees are prohibited from having business dealings with companies affiliated with, or acting as major customers or suppliers of, the governmental unit; transactions with officials of the governmental unit are adequately controlled and disclosed in the records; and such transactions occur only in the normal course of business and are legally authorized.

WELLS TOWNSHIP--MARQUETTE COUNTY

SCHEDULE OF FINDINGS Fiscal Year Ended March 31, 2006

OTHER MATTERS (Continued)

Criteria: MCL 15.328 Other laws superseded; local ordinances. Section 8 states: "It is the intention that this act shall constitute the sole law in this state and shall supersede all other acts in respect to conflicts of interest relative to public contracts, involving public servants other than members of the legislature and state officers, including but not limited to section 30 of 1851 PA 156, MCL 46.30. This act does not prohibit a unit of local government from adopting an ordinance or enforcing an existing ordinance relating to conflict of interest in subjects other than public contracts involving public servants."

Note: MCL 46.30 Section 30 states: "A member of the county board of commissioners shall not be interested directly or indirectly in any contract or other business transaction with the county, or a board, office, or commission thereof, during the time for which he is elected or appointed, nor for one year thereafter unless the contract or transaction has been approved by 3/4 of the members of the county board of commissioners and so shown on the minutes of the board together with a showing that the board is cognizant of the member's interest. This prohibition is not intended to apply to appointments or employment by the county, or its officers, boards, committees, or other authority, which appointments and employment shall be governed by the provisions of section 30a of this act."

Recommendation: We recommend the township adopt an Ethical Standards and Standards of Conduct policy.